

NATIONAL INSURANCE CONTRIBUTIONS (EMPLOYER PENSIONS CONTRIBUTIONS) BILL

EXPLANATORY NOTES

What these notes do

These Explanatory Notes relate to the National Insurance Contributions (Employer Pensions Contributions) Bill as brought from the House of Commons on 22 January 2026 (HL Bill 164).

- These Explanatory Notes have been prepared by HM Revenue and Customs (HMRC) to assist the reader of the Bill and to help inform debate on it. They do not form part of the Bill and have not been endorsed by Parliament.
- These Explanatory Notes explain what each part of the Bill will mean in practice; provide background information on the development of policy; and provide additional information on how the Bill will affect existing legislation in this area.
- These Explanatory Notes might best be read alongside the Bill. They are not, and are not intended to be, a comprehensive description of the Bill.

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Overview of the Bill

1. This Bill creates a power for the Treasury to apply a primary and secondary Class 1 National Insurance contributions (NICs) charge where employer pension contributions are made via salary sacrifice arrangements that exceed £2,000 per annum, with effect from 6 April 2029.

Policy background

2. The Bill limits the NICs relief available to higher earners on employer pension contributions made through salary sacrifice arrangements whilst protecting lower earning pension savers by introducing a £2,000 threshold. Most employees and their employers who make typical pensions contributions via salary sacrifice will be unaffected. This means from April 2029, a primary and secondary Class 1 NICs charge will be applied where employer pension contributions are made via salary sacrifice arrangements that exceed £2,000. Salary Sacrifice contributions for pensions will continue to be free of income tax.
3. The changes made in this Bill do not affect in any way employee pension contributions made via other pension arrangements which are already subject to Class 1 NICs. The existing income tax relief regime for pensions is unaffected by the changes introduced in this Bill, employer contributions can continue to be made NICs free, and existing NICs reliefs (e.g. for employees above State Pension age, and provision of the Employment Allowance) will continue to apply.

Legal background

4. Legislation relating to the existing system of NICs and social security benefits is set out in a combination of primary and subordinate legislation. The most relevant provisions are:
 - a. Social Security Contributions and Benefits Act 1992 (SSCBA 1992).
 - b. Social Security Contributions and Benefits (Northern Ireland) Act 1992 (SSCB(NI)A 1992).
 - c. Social Security (Contributions) Regulations 2001 (S.I. 2001/1004).

Territorial extent and application

5. The Bill extends to, that is forms part of, the law of England and Wales, Scotland and Northern Ireland. Amendments made by the Bill to the legislation of Great Britain and Northern Ireland have the same extent as the enactments they amend. The Bill applies in England, Wales, Scotland and Northern Ireland.
6. There is a convention that Westminster will not normally legislate with regard to matters that are within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly without consent of the legislature concerned.
7. The matters to which the provisions of the Bill relate are not within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly, and no legislative consent motion is being sought in relation to any provision of the Bill. If there are amendments relating to matters within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly, the consent of the relevant devolved legislatures will be sought for the amendments.

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8. See the table in Annex A for a summary of the position regarding territorial extent and application in the United Kingdom. The table also summarises the position regarding Legislative Consent Motions.

Commentary on provisions of Bill

Clause 1: Employer pensions contributions pursuant to optional remuneration arrangements: Great Britain

9. Clause 1(1) amends section 4 SSCBA 1992 by introducing new subsections (6A) to (6E). New subsection (6A) provides that in cases where a benefit in kind mentioned in section 308 or 308A of ITEPA 2003 (contributions to pensions schemes) is provided for an employed earner pursuant to optional remuneration arrangements, and the employed earner would have been liable for income tax on the benefit under section 228A(5) ITEPA but for the exemptions in sections 228A(5)(f)(g) ITEPA, regulations may make provision for treating the amount foregone in relation to the benefit as remuneration derived from the earner's employment. This means there will be no liability to Income Tax but the amount foregone in relation to the benefit is treated as earnings under section 3(1)(a) SSCBA 1992 and therefore liable to a Class 1 NICs charge.
10. New subsection (6B) provides that regulations made under new subsection (6A) must set out the contribution limit, under which an amount foregone in relation to the benefit is not treated as remuneration derived from the earner's employment. This means no NICs will apply to amounts foregone below the £2,000 contribution limit.
11. New subsection (6C)(a) specifies that regulations made under (6A) setting the contributions limit for a tax year could also provide for an equivalent limit for earners who are paid weekly or at other intervals. This ensures that various pay periods could be accommodated in line with the existing NICs system. Subsection (6C)(b) provides the rounding rule for a prescribed equivalent.
12. New subsection (6D)(a) provides that regulations made under new subsection (6A) may make provision for any amount treated as remuneration to be treated as paid at such time as may be specified in regulations, for the benefit of the earner. Subsection (6D)(b) provides that regulations made under new subsection (6A) may provide, in prescribed cases, that the amount treated as remuneration may differ from the amount foregone in relation to the benefit. Subsection (6D)(c) provides that in such cases the amount may be calculated in such manner and on such basis that may be prescribed in regulations.
13. New subsection (6E) is an interpretation provision. It provides that reference to the benefits code in new subsection (6A) have the same meaning in that subsection as they have in the code in ITEPA.
14. Clause 1(2) amends section 176 SSCBA 1992 (Parliamentary control) by inserting new subsection (zza). This ensures that any regulations made under new subsection (6A) which reduce the contribution limit for a tax year are subject to the affirmative resolution procedure.
15. Clause 1(3) specifies that amendments made by this new section will have effect from tax year 2029-30 and subsequent tax years.
16. Clause 1(4) specifies that the first regulations made under section 4(6A) must set the contributions limit at £2,000 for a tax year (subject to any provision made in reliance on subsection (6C)(a) or (b) of section 4). The contribution limit will remain £2,000 for subsequent tax years unless it is amended by later regulations.

Clause 2: Employer pensions contributions pursuant to optional remuneration arrangements: Northern Ireland

17. Clause 2 makes equivalent provisions to those in clause 1 for Northern Ireland by amending SSCB(NI)A 1992.
18. Clause 2(2) amends section 172 SSCB(NI)A 1992 (Assembly etc control) by inserting new subsection (11ZZA) in order to provide that any regulations made under new section 4(6A) SSCB(NI)A 1992 are to be subject to the affirmative resolution procedure where regulations make a reduction in the contributions limit for a tax year.

Clause 3: Extent commencement and short title

19. Clause 3(1)(a) specifies that clause 1 extends to England and Wales and Scotland.
20. Clause 3(1)(b) specifies that clause 2 extends to Northern Ireland.
21. Clause 3(2) specified that the Act comes into force on the day on which it is passed.
22. Clause 3(3) provides that the Act may be cited as the National Insurance Contributions (Employer Pensions Contributions) Act 2026.

Commencement

23. The provisions in the Act come into force on the day on which it is passed. Regulations made under the Act will come into force from April 2029.

Financial implications of the Bill

24. The exchequer impacts for the measures in the Bill are set out in a Tax Information and Impact Note. Row 52 of Table 4.1 of the Budget 2025 documents sets this out as the following (in £million):

2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
+0m	-40m	-55m	-75m	+4,845m	+2,585

25. HMRC will need to make changes to its systems. These costs will be confirmed.

Parliamentary approval for financial costs or for charges imposed

26. No ways and means and money resolutions were required for the Bill because it will not authorise any new charges on the people (charges on the people generally being charges paid into the Consolidated Fund and intended to be used for general purposes and therefore not including National Insurance contributions payable into the National Insurance Fund). Although the Bill will result in additional administrative expenditure for HMRC, no money resolution is required. This is in accordance with long established practice to not require a money resolution in connection with administrative expenses incurred by HMRC in exercising their routine functions connected with National Insurance contributions (expenditure which would, in any event, be covered by the money resolution for the Commissioners for Revenue and Customs Act 2005).

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Compatibility with the European Convention on Human Rights

27. The Financial Secretary to the Treasury has made the following statement under section 19(1)(a) of the Human Rights Act 1998:

“In my view the provisions of the National Insurance Contributions (Pension Contributions) Bill are compatible with the Convention Rights”.

Duty under section 20 of the Environment Act 2021

28. The Financial Secretary to the Treasury is of the view that the Bill as introduced into the House of Lords does not contain provision which, if enacted, would be environmental law for the purposes of section 20 of the Environment Act 2021. Accordingly, no statement under that section has been made.

Duty under section 13C of the European Union (Withdrawal) Act 2018

29. The Financial Secretary to the Treasury is of the view that the Bill as introduced into the House of Lords does not contain provision which, if enacted, would affect trade between Northern Ireland and the rest of the United Kingdom. Accordingly, no statement under that section has been made.

Related documents

30. The following documents are relevant to the Bill and can be read at the stated locations:
- A Tax Information and Impact Note has been published by HM Revenue and Customs.¹

¹ <https://www.gov.uk/government/publications/salary-sacrifice-reform-for-pension-contributions-effective-from-6-april-2029/salary-sacrifice-reform-for-pension-contributions>

Annex A – Territorial extent and application in the United Kingdom

Provision	England	Wales		Scotland		Northern Ireland	
	Extends to E & W and applies to England?	Extends to E & W and applies to Wales?	Legislative Consent Motion process engaged?	Extends and applies to Scotland?	Legislative Consent Motion process engaged?	Extends and applies to Northern Ireland?	Legislative Consent Motion process engaged?
Clause 1	Yes	Yes	No	Yes	No	No	No
Clause 2	No	No	No	No	No	Yes	No
Clause 3	Yes	Yes	No	Yes	No	Yes	No

Subject matter and legislative competence of devolved legislatures

31. There is no matter in the Bill that is within the legislative competence of the devolved legislatures.

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